

AZERBAIJAN - A Crossroad of Commerce and Culture

Table of Contents

| |
|---|
| Azerbaijan at a Glance |
| Market Overview |
| Best Prospects for U.S. Companies |
| Market Entry Strategy |
| National Holidays of Azerbaijan |
| Business Travel |

Azerbaijan, a vital commercial and cultural center in the days of the Silk Road, is today fast becoming a regional transportation and communication hub for the Caucasus and Central Asia. In addition to its cultural and historical importance, Azerbaijan is also a strategically important link to the region's energy export system.

Azerbaijan at a Glance

| | |
|-----------------------------------|--|
| Total Area | 86,600 sq km |
| Population | 7,868,385 (July 2004 estimate) |
| GDP total | 3.77bn USD (2004 first half) - this indicator gives more information on GDP |
| Real GDP Growth | 10.2% (2004) |
| Inflation | 6.7% (2004) |
| GDP by sector | Agriculture: 4.1%, industry and construction: 53.3%, other: 42.6% (2004 first half) |
| Currency | Azerbaijani Manat (AZM) |
| Exports-Commodities | Oil and gas, machinery, cotton, foodstuff |
| Imports-Commodities | Machinery and equipment, oil products, foodstuffs, metals, chemicals |
| U.S. exports to Azerbaijan | 158.8 million (2004), 119.8 million (2003), 69.6 million (2002), 64.3 million (2001), 209.6 million (2000), 54.9 million (1999), 123.3 million (1998) . |

Source: CIA, U.S. Census Bureau

Market Overview

Azerbaijan's oil and gas deposits are estimated to be the third largest in the Caspian region. The signing of a number of Production Sharing Agreements (PSAs) with oil companies in the mid-1990s opened the way for investment in two major export pipelines. The Baku-Tbilisi-Ceyhan (BTC) pipeline will carry oil primarily from Azerbaijan's offshore Azeri-Chirag-Guneshli (ACG) oil field to the Turkish port of Ceyhan on the Mediterranean Sea through Georgia. This pipeline will be operational in spring of 2005. The South Caucasus Pipeline (SCP) will carry natural gas from Azerbaijan's offshore Shah Deniz field to east-central Turkey, also through Georgia. It is expected to be operational in the fall of 2006. Oil production from Azeri fields is projected to increase sharply in mid to late 2005, and is expected to reach a peak in 2009 of 1.3 million barrels per day, or four times current production. Gas production is also expected to increase in 2006-07 following the development of the Shah Deniz gas field and SCP construction, reaching an annual peak of 20 billion cubic meters (bcm) in 2010. This in turn will create a substantial revenue windfall to the government of Azerbaijan over the next two decades, and at the same time create export opportunities for U.S. companies.

Although the oil sector accounts for most of Azerbaijan's GDP, it employs only one percent of the labor force. Almost half the country's population lives in rural areas. Still, the economy grew at nearly 9% a year during 1997-2002 and the GDP grew by 10% in annual average in 2000-03 while annual inflation dropped to 0.1%. If oil and gas developments remain on track GDP growth could reach double digits beyond 2005.

Best Prospects for U.S. Companies

Over 100 American companies, primarily in the oil and gas sector, are now active in Baku. The American Chamber of Commerce in Azerbaijan boasts over 145 members. Best prospects for U.S. products and services in 2005 include oil/gas field machinery and services; architectural, and construction, engineering services; building materials; telecommunications equipment and services; and food processing/packaging equipment. Imported consumer goods have become increasingly available, although less expensive Chinese, Russian and Turkish goods predominate in the market.

Agriculture is the second largest sector after oil and gas. This sector has always been a fundamental part of the economy, which employs 35 percent of the work force, equal to 15 percent of GDP. Some of the promising opportunities include: cotton and tobacco production; livestock and meat processing; agricultural machinery; milk processing; and nuts, fruits, and vegetable processing.

Agriculture, telecommunications, construction and financial services (including banking and insurance) have been identified as likely future growth leaders and opportunities for international investors outside of the energy and energy services sectors. Opportunities are also likely to open up in legal, accounting, personnel management and property management; advertising; technical testing, evaluation and repair; educational and environmental services. Niche markets are also possible in tourism, travel-related services, and courier services.

| TOTAL U.S. EXPORTS TO AZERBAIJAN <i>1994 – 2004 (In Millions of dollars)</i> | | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Year | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Total Exports | 27.6 | 35.6 | 54.0 | 62.2 | 123.3 | 54.9 | 209.6 | 64.3 | 69.6 | 119.8 | 158.8 |

Source: U.S. Census Bureau

| TOTAL U.S. IMPORTS FROM AZERBAIJAN <i>1994 – 2004 (In Millions of dollars)</i> | | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Year | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Total Imports | 0.2 | 0.7 | 4.8 | 5.6 | 5.0 | 26.2 | 20.9 | 20.6 | 34.4 | 9.5 | 38.1 |

Source: U.S. Census Bureau

Market Entry Strategy

Azerbaijanis are a polite and friendly people with a rich cultural heritage. Baku's long history as a trading center continues today. Building successful business relationships requires patience and tact. Most business deals are made based on strong personal relationships. Because of the mixed influence of Eastern, Western and post-Soviet business cultures on Azerbaijan business culture, business meetings may be conducted in Azerbaijani, Russian or Turkish. Although English is gaining in popularity, it is not widely spoken outside of Baku. A one-page letter of introduction of you and your U.S. firm would be appropriate in order to allow your potential Azeri business partner to know you in advance. Business cards with one side in Azerbaijani and the other in English are generally exchanged in the initial meeting.

The market is price-sensitive and primarily dominated by Turkish, European, and Russian products. U.S. companies interested in appointing a distributor should focus on medium-sized Azeri firms with stable credit history. Franchising is not yet common in Azerbaijan. The only major American franchise in Azerbaijan is McDonald's.

Temporary Entry of Goods

Personal items, tools of trade, and business samples may be imported with little problem. Goods to be displayed or exhibited may be brought in as temporarily imported goods for a defined period of time but must be re-exported within the time stipulated to avoid paying import duties and taxes. Businesspeople traveling with laptops must declare them at time of entry and the temporary entry form covering the electronic equipment must be surrendered on departure. For more information on customs clearance procedures in Azerbaijan, please visit http://www.bisnis.doc.gov/bisnis/bisdoc/cr_azerbaijan.htm. This report addresses such issues as customs regimes, check points, mandatory documentation, required fees, and more, enabling U.S. businesses to anticipate customs requirements for goods to be shipped and compare customs conditions across countries. As customs legislation and regulations are subject to change without notice, U.S. companies are advised to verify the accuracy of related information with officials from the corresponding Customs agency before transporting goods to or through that country.

Business Travel

U.S. citizens are required to obtain visas before entering Azerbaijan. An invitation sent through the Consular Department of the Ministry of Foreign Affairs of Azerbaijan, one completed visa application form, original passport or travel document, two-passport-size photos, and the consular fee for issuing visas are required when applying for visa. Depending on the entry type, the fee for processing the visa ranges from USD 40 to USD 250.

Although the U.S. Embassy advises all U.S. passport holders to obtain their visas prior to arrival, it is possible to obtain a visa at Baku's Heydar Aliyev International Airport (GYD). A single-entry visa is normally issued at the airport upon submitting two photographs, USD 40 in cash and a completed visa application. Anyone applying for an airport visa should specify the length of their stay in Azerbaijan (up to thirty days). They will be issued a visa of matching validity. If no specific request is made, then the traveler will be issued a visa valid for only seven days. Visas expiring prior to a traveler's planned departure must be extended prior to departure by the Consular Department of the Ministry of Foreign Affairs (MFA) located at 4 Shikhali Gurbanov Street in Baku. The main phone number for the MFA is 492-6755. The fee for the visa extension ranges from \$10 to \$40 depending upon the required duration, and the procedure takes several days. At this time there are no plans to offer this service at the airport.

For additional information on visa requirements please contact:

Embassy of the Republic of Azerbaijan
2741 34th Street NW
Washington, DC 20008
Telephone: (202) 842-0001
Fax: (202) 337-5911
Website: www.azembassy.com

Key Contact Information

U.S. Embassy Baku

Address: 83 Azadlig Avenue,
Baku AZ1007, Azerbaijan
Tel: (994 12) 498-0335
Direct Fax: (994 12) 498-6117 (Direct)
Website: <http://baku.usembassy.gov> or <http://azerbaijan.usembassy.gov>
www.bisnis.doc.gov or www.bisnis-eurasia.org

Contact: Mr. Bakhtiyar I. Mamedov
BISNIS U.S. Department of Commerce Representative
Bakhtiyar.Mamedov@mail.doc.gov or MamedovB@state.gov

National Holidays of Azerbaijan in 2005

January 1 - New Year's Day
January 20 - Mourning Day

January 20* - Gurban Bayram (Day of Sacrifice)
March 8 - Women's Day
March 21 - Novruz Bayram
May 9 - Victory Day
May 28 - Republic Day
June 15 - National Salvation Day
June 26 - Armed Forces Day
October 18 - State Sovereignty Day
November 4* - Ramazan Bayram
November 12 - Constitution Day
November 17 - Day of Renaissance
December 31 - Day of Solidarity of Azerbaijanis throughout the World

NOTE: Holidays marked with an asterisk are religious holidays whose dates are determined by the government's interpretation of the lunar calendar. Verification of the actual date will be made closer to the holiday.

WEB RESOURCES

1. Embassy of Azerbaijan in the United States
www.azembassy.com
2. Embassy of the United States in Azerbaijan
baku.usembassy.gov
3. Business Information Service for the Newly Independent States (BISNIS)
<http://www.bisnis.doc.gov/bisnis/bisnis.cfm>
4. U.S. Census Bureau
www.census.gov
5. U.S. Agency for International Development (USAID)
<http://www.usaid.gov>
6. UNDP Human Development Report
http://hdr.undp.org/reports/view_reports